

ORIGINAL

Decision No. 37605

BEFORE THE RAILROAD COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the application of PACIFIC GAS AND ELECTRIC COMPANY, a corporation, for an order of the Railroad Commission of the State of California authorizing applicant to issue \$115,000,000 principal amount of its First and Refunding Mortgage Bonds, Series L, 3%, due June 1, 1974, and to use the proceeds for the purposes specified in this petition, etc.

Application No. 26387

BY THE COMMISSION:

SECOND SUPPLEMENTAL ORDER

WHEREAS, the Commission by Decision No. 37412, dated October 13, 1944, reserved jurisdiction over the disposition by Pacific Gas and Electric Company of a portion (estimated at \$2,602,000) of the savings in Federal taxes on income resulting from the issue of \$115,000,000 of First and Refunding Mortgage Bonds, Series L, 3%, due June 1, 1974, and the payment of \$115,499,000 of First and Refunding Mortgage Bonds, Series H, 3-3/4%, and

WHEREAS, Pacific Gas and Electric Company reports that because of said bond refunding it will effect a saving in Federal taxes on income of \$7,234,090.87, and

WHEREAS, Pacific Gas and Electric Company has heretofore been authorized to use \$5,754,586.00 of said \$7,234,090.87 to write off bond discount, expense and premium, and

WHEREAS, Pacific Gas and Electric Company asks permission to transfer the remainder (\$1,479,504.87) of said \$7,234,090.87 to its Reserve for Pensions, and

WHEREAS, the Commission is of the opinion that said \$7,234,090.87 is not an operating expense but may be reported under Account 507-A, Tax Savings on Bond Refunding, with an appropriate footnote showing the amount transferred to Amortization of Bond Discount, Expense and Premium and the amount transferred to Reserve for Pensions, and that the company's request should be granted as herein provided, therefore,

IT IS HEREBY ORDERED that Pacific Gas and Electric Company may credit its Reserve for Pensions with said \$1,479,504.87 subject to the condition that the Railroad Commission reserves the right to exclude said \$1,479,504.87 from operating expenses.

IT IS HEREBY FURTHER ORDERED that the authority herein granted is effective upon the date hereof.

Dated at San Francisco, California, this 8th day of January, 1945.

Justin J. Casper
Frederick D. ...
Walter H. ...
Donald ...
Commissioners.

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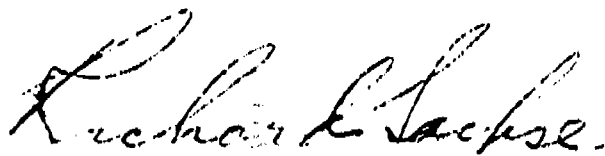
CONCURRING OPINION

I concur in the preceding ex parte order with the understanding (which the Commission assures me is correct) that a transfer herein authorized of the sum of \$1,479,504.87 to applicant's Reserve for Pensions is in effect a charge to applicant's Surplus and is not considered an operating expense to be charged to the rate payers.

The preceding decision, I think, should also state how far the transfer to the Reserve for Pensions herein made will go to meet the alleged total deficiency in applicant's so-called past pension liability. In other words, the Commission should have applicant's own figure of the required total reserve for pension and should pass on the reasonableness of that figure and make its determination to what extent past pension liability is to be a charge on future rate payers and to what extent it is to be a charge to surplus. It should be recalled that the Commission heretofore has stated its position on so-called past pension liabilities of utilities and no ex parte decision should be made at this time that might cast doubt on long-established Commission policy and practice.

According to applicant's letter of December 27, 1944, addressed to the presiding Commissioner in this case, and on which the preceding Second Supplemental Order is based, Pacific Gas and Electric Company will effect a saving in Federal taxes by reason of its bond refunding in the amount of \$7,234,090.87. As I understand it, if the bond refunding had not taken place,

applicant's Federal income tax payment in 1944 would be greater by the amount just stated than it actually will be. Whether this difference between what will actually be paid in taxes and what would have been paid under a different set of circumstances represents a real "saving" in operating expenses is a question. If, however, applicant's position is accepted and the reduction in tax payments is considered as an actual saving, then the Commission should decide whether this substantial saving should accrue in whole or in part to the benefit of the rate payers through a corresponding reduction in the gas and electric rates. In my opinion any reduction in the cost of rendering utility service should go to the benefit of the rate payers after full allowance is made by the Commission for all actual reasonable operating expenses plus a fair rate of return on a proper rate base.

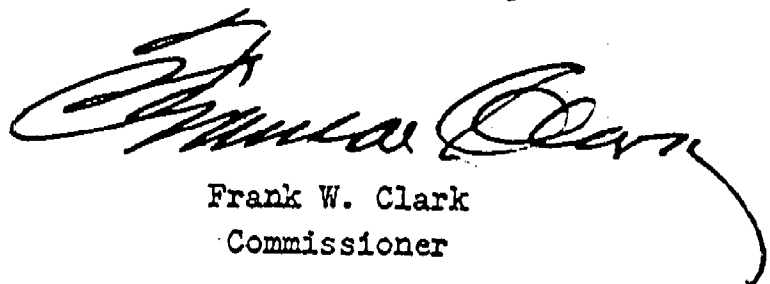


Richard Sachse, Commissioner.

CONCURRING OPINION

In connection with my signing this order I consider it appropriate and necessary to now state in writing that in doing so I am persuaded by Mr. Fankhauser's assurance that if in the future it should develop that the pension reserve hereby and heretofore established is larger in amount than necessary to fulfill the purpose for which it is intended, later action by this Commission can be taken which would capture any such surplus funds, they being subject to future treatment by the Commission as it may decide.

Further, I deem it necessary and proper that the Commission formally and thoroughly investigate all phases of the pension matter as pertaining to the operations of this utility. In my opinion, the Commission has not heretofore taken such steps along these lines as should have been taken for the benefit of all concerned. The utility, from an operating standpoint, its employees, from the standpoint of their future security and peace of mind, as well as its rate payers are entitled to a clear-cut over-all decision from this Commission on this important matter. Until such a decision is rendered by this Commission I do not consider this order, involving \$1, 479,504.87, as in any way tied in with the treatment of any other funds which have found their way into this utility's reserve for pensions, nor is it to be considered as a precedent of what my position in the future may be as to additional funds which the Commission might be called upon to approve for transfer to the company's reserve for pensions.



Frank W. Clark
Commissioner